Ten Things You Should Know About Bush's Trillion Dollar Fleecing Plan

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The Bush administration's proposal to bail out some of Wall Street's biggest players with an unprecedented transfer of public wealth to the private sector sent shock-waves throughout the nation.

Already deep in deficit, the administration wants to borrow $700 billion dollars — in addition to the $900 billion already spent this year to prop up troubled lending institutions and deal with the fall-out from the housing crisis — and entrust it to Treasury Secretary Henry Paulson, fresh from a long run on Wall Street himself. He'd then buy up worthless paper from struggling banks.

Who would get the money? Nobody knows. Paulson says he wants to hire Wall Street firms to oversee the process.

Under Bush's plan, the taxpayer would get little, if anything, in return. The whole thing would happen without Congressional oversight, save for a semi-annual report on the process, and Paulson's actions would be beyond challenge in the courts.

It is an economic *coup d'etat* in the making. And people are talking about little else. Here's 10 things that have been on our radars …

1. **Shock Doctrine: Profiting from Crisis**

Robert Borosage of Campaign for America 's Future invokes Naomi Klein's "*Shock Doctrine* in asking whether we're going to "get fleeced in this crisis" …

Call it extortion. Every American is told to ante up $2,000–an estimated $700 billion in all–to bail out the banks from their bad bets, or they'll bring down the entire economy.

In a speculative frenzy that allowed the Masters of the Universe to pocket millions personally, the banks filled their coffers with toxic paper that no one wants to buy. Now they sensibly don't want to lend money to each other, since no one knows if the other is solvent. So they go on strike, and threaten to trigger a global depression, if they don't get rescued.

The bailout will happen simply to avoid that depression. But depressions have some salutary effects – the scoundrels go belly up, the weakest get purged, and in the wake of the disaster, people demand strict regulation of the money lenders to keep their greed and predatory behavior in check, and government spends money on the real economy to put people back to work.

2. **Has a "Consensus" Really Formed Around the Idea That Something Must Be Done?**

Martin Crutsinger of the Associated Press reports that "economists" — implying, troublingly, *all* economists — see the Bush Bailout as"Necessary."

But Atrios — economist Duncan Black's blog handle — has some questions about how everyone got on the same page so quickly …

It's fascinating to watch how easily consensus is manufactured. A few days ago elite opinion seemed to be cheering Paulson's "no bailout" line, and now they're cheering a trillion bucks thrown down the crapper …

It's unrealistic to imagine that I'd be able to really get enough honest information to have an informed opinion, but I spent some time thinking about what question all the Very Serious People should, at a minimum, want answered before they start cheering on [any] plans. This is what I came up with:

What changed between Monday and Friday? What new information did you have at the end of the week that you did not have at the beginning of the week which caused you to go from $0 to $1 trillion?

And, no, tumbling stock prices or babble about "deteriorating credit conditions" don't count.

3. Is This Even Legal?

The Constitutionality of the plan is being hotly debated, according to Frank James, writing on the *Chicago Trib's* blog:

Troubling to many critics is the breathtaking extraconstitutionality of the proposal which would give the Treasury secretary unusual powers that couldn't be countermanded by Congress or the courts.

That appears on its face to violate the Constitution's assertion of a balance of powers where no one branch is unchecked by the others.

James goes on to quote Alan Blinder, "former Federal Reserve vice chair and normally a mild-mannered, live-and-let-live Princeton University economics professor," who said Paulson should be booted out of office for his proposal …

"I'm speaking now as one of the earliest advocates of creating an institution like this, many, many months ago. And it's a crying shame to see the way the Treasury has written this. I think the secretary of the Treasury should be dismissed, frankly. … Asking for the authority to buy anything, with no review, with no court review, with no limits practically as to quantity or scope, with almost no congressional oversight. We have something more precious at stake than our precious financial system and that's our precious Constitution. And frankly, if I were a member of Congress, having advocated for this for nine or ten months, I would vote against this unless it's changed, dramatically…"

What's Blinder talking about? Section 8 of the draft legislation released on Saturday reads, in its entirety:

Decisions by the Secretary pursuant to the authority of this Act are non-reviewable and committed to agency discretion, and may not be reviewed by any court of law or any administrative agency.

Sounds pretty like some pretty unbalanced powers to us.

And who'd be the new Emperor of the U.S. economy? McClatchy's Kevin Hall explains:

Making the rounds on the Sunday morning talk shows, Treasury Secretary Henry Paulson repeatedly said today's financial problems were long in the making. He should know. He was part of the Gold Rush that has brought the global financial system to the brink of collapse.

Paulson presided over one of the most profitable runs on Wall Street as chairman and chief executive officer of investment banking titan Goldman Sachs & Co. from 1999 until President Bush nominated him on May 30, 2006 to take over the Treasury Department.

[…]

With Paulson now seeking virtually unfettered authority to administer the largest bailout of the financial industry in U.S. history, many are wondering whether Paulson also doesn't come with enormous potential conflicts of interest.

That was one reason Democrats on Sunday expressed reluctance to approve the administration's draft legislation that would leave to Paulson virtually all authority over the proposed $700 billion bailout. The legislation would allow him to decide which securities to buy, from whom to buy them, and which outside companies and people to hire to help him do so.

4. Some Lawmakers Are Angry

The reality is that there's less than a consensus that the "Paulson" plan is the way to go. Over at Open Left, Matt Stoller quotes an angry but (safely) anonymous Democratic Representative venting some spleen …

Paulsen and congressional Republicans, or the few that will actually vote for this (most will be unwilling to take responsibility for the consequences of their policies), have said that there can't be any "add ons," or addition provisions. Fuck that. I don't really want to trigger a world wide depression (that's not hyperbole, that's a distinct possibility), but I'm not voting for a blank check for $700 billion for those mother fuckers.

Nancy said she wanted to include the second "stimulus" package that the Bush Administration and congressional Republicans have blocked. I don't want to trade a $700 billion dollar giveaway to the most unsympathetic human beings on the planet for a few fucking bridges. I want reforms of the industry, and I want it to be as punitive as possible.

5. Opposition Across the Political Spectrum

And the *New York Times'* Paul Krugman's not sure if it'll work …

So, here's my problem: what we have now are a bunch of financial institutions in trouble, because they're highly leveraged, and have mortgage-related assets on their books. And they can't raise cash because nobody wants to buy those assets. The Paulson plan will in effect create a market for toxic paper, thereby supposedly unfreezing the markets.

But what if the institutions are fundamentally broke, even if the liquidity squeeze is relieved? …

…Suppose that Hank Paulson does his reverse auction, and it turns out that the Treasury's price for toxic waste is 40 cents on the dollar. Even so, [banks are] still underwater. So what does Treasury do then?

One answer, I suppose, is that we think that there aren't too many firms in that position — and that those that will still fail, even with the Paulson Plan, aren't going to disrupt the markets too much when they go down. But do we know that?

In a subsequent column, Krugman says that he agrees that doing something to prop up the financial sector is necessary, but he opposes the "blank check" — the lack of oversight built into the plan. In a rare instance, William Kristol *agrees* with Krugman. After saying that this is no time for ideological devotion to the "free markets," Kristol asks …

…is the administration's proposal the right way to do this? It would enable the Treasury, without Congressionally approved guidelines as to pricing or procedure, to purchase hundreds of billions of dollars of financial assets, and hire private firms to manage and sell them, presumably at their discretion There are no provisions for — or even promises of — disclosure, accountability or transparency. Surely Congress can at least ask some hard questions about such an open-ended commitment.

And I've been shocked by the number of (mostly conservative) experts I've spoken with who aren't at all confident that the Bush administration has even the basics right — or who think that the plan, though it looks simple on paper, will prove to be a nightmare in practice.

6. Do Joe and Jane Tax-Payer Really Have to Foot the Bill?

There's lot's of talk about how the legislation can be improved if it is passed. The *WaPo's* Sebastian Mallaby thinks it unnecessary to use public dollars to boost ailing banks' liquidity:

Raghuram Rajan and Luigi Zingales of the University of Chicago suggest ways to force the banks to raise capital without tapping the taxpayers. First, the government should tell banks to cancel all dividend payments. Banks don't do that on their own because it would signal weakness; if everyone knows the dividend has been canceled because of a government rule, the signaling issue would be removed. Second, the government should tell all healthy banks to issue new equity. Again, banks resist doing this because they don't want to signal weakness and they don't want to dilute existing shareholders. A government order could cut through these obstacles.

7. What Would a More Progressive Bailout Look Like?

Economist Dean Baker offers up some "Progressive Conditions for a Bailout" at TPM:

Principles to Guide the Bailout

1) Financial institutions should be forced to endure the bulk of the losses with taxpayer funds only used where absolutely necessary to sustain the orderly operation of the financial

system.

2) The bailout must be designed to minimize the opportunity for gaming.

3) The bailout should be designed to minimize moral hazard.

4) In the case of delinquent mortgages that come into the government's possession, there should be an effort to work out an arrangement that allows the homeowner to remain in her house as owner. If this proves impossible, then former homeowners should be allowed to remain in their homes as renters paying the market rent. This should be done even if it leads to losses to the government.

5) There should be serious efforts to severely restrict executive compensation at any companies that directly benefit from the bailout.

He also offers up some ideas for restructuring the financial system so, as they say, read the rest.

8. Could the Plan Get Better Through Negotiation?

It appears to us that the first draft of the bill was so extreme, that it veered so far towards Mussolini's definition of fascism — a perfect blend of state and corporate power — that it was intended as a starting point from which the administration could offer its opponents some concessions and still end up with something that's terrible for Main Street.

Along those lines, the *Wall Street Journal* reports …

The Bush administration has conceded several changes to its rescue plan for the troubled banking industry, including agreeing to compensation limits for bank chief executives taking part in the plan and the need for more help for homeowners facing foreclosure, a leading House Democrat said Monday.

Chairman of the House Financial Services Committee Rep. Barney Frank said the Treasury also agreed to Democrats' idea that the federal government should receive warrants to take an equity stake in financial firms in exchange for the government purchasing toxic assets from them.

Congress may raise the cost of a $700 billion market-rescue deal by adding a new economic stimulus plan to benefit taxpayers, according to Rep. Barney Frank, D-Mass., chairman of the House Financial Services Committee. (Sept. 22)

Senate Democrats also want to add tough new measures, including a provision that would allow the government to take shares of any financial institution that participates in the program.

Speaker of the House Nancy Pelosi said on Monday, "we will not simply hand over a $700-billion blank check to Wall Street and hope for a better outcome." But we've heard that before … we'll see.

Of course, there is a chance that a wave of resistance coming from across the political spectrum could stop the deal, or that it might get mired in partisan bickering — sometimes "gridlock" is good.

9. **Foreign Banks Can Cash in Too**

Or perhaps the fact that U.S. tax-payers look like they might also end up bailing out foreign banks will end up being a fly in the ointment.

Now, the U.S. bailout looks as if it is going global, too, a move that could raise its cost and intensify scrutiny by Congress and critics.

Foreign banks, which were initially excluded from the plan, lobbied successfully over the weekend to be able to sell the toxic U.S. mortgage debt owned by their American units to the Treasury, getting the same treatment as U.S. banks.

On Sunday, Treasury Secretary Henry Paulson indicated in a series of appearances on TV talk shows that an original proposal introduced Saturday had been widened. "It's a distinction without a difference whether it's a foreign or a U.S. one," he said in an interview with Fox News.

He's right, in a way. There are no U.S. or foreign mega-banks — just multinational financial institutions with headquarters at home or somewhere abroad. If one accepts the logic of the plan at all, it might as well extend to multinationals with foreign-sounding names. The rabbit hole is only so deep, and we're already way down it.

10. Is This Signaling a Decline in American Power?

According to *Reuters*, this all seems to be making the Chinese think that a Different World is Possible …

Threatened by a "financial tsunami," the world must consider building a financial order no longer dependent on the United States , a leading Chinese state newspaper said on Wednesday.

The commentary in the overseas edition of the People's Daily said the collapse of Lehman Brothers Holdings Inc., "may augur an even larger impending global 'financial tsunami'."

[…]

"The eruption of the U.S. sub-prime crisis has exposed massive loopholes in the United States ' financial oversight and supervision," writes the commentator, Shi Jianxun.

"The world urgently needs to create a diversified currency and financial system and fair and just financial order that is not dependent on the United States ."

Also, the Markets Reaction …

A lot of people expected the markets to respond positively to the bailout plan, at least over the short-run, but they, too had a thing or two to say on Monday …

Stock prices and the dollar plunged today — and oil and other commodities soared — on growing anxiety about the effect of the government's proposed $700-billion rescue of the financial system.

The Dow Jones industrial average tumbled 372.75 points, or 3.3%, to 11,015.69, erasing the index's 368-point gain Friday. The Standard & Poor's 500 index lost 3.8%, and the Nasdaq composite index fell 4.2%.

It was the Dow's sixth triple-digit increase or decrease in a row, and its fifth 350-point-plus move in six trading days.

Some investors who pulled money out of stocks poured it into commodities.

Oil futures shot up $16.37 a barrel to settle at $120.92 on the New York Mercantile Exchange after spiking as high as $130 in the last hour of trading. An index of 19 major commodities soared 3.9%.

The dollar posted its biggest decline on record against the nearly decade-old euro, and yields on Treasury bonds rose over concerns about the large amount of new debt that the government could take on to fund the bailout plan.